

Message Text

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C O N F I D E N T I A L KUWAIT 5449

LIMDIS

DEPT PASS TREASURY FOR ASST SECY PARSKY'S OFFICE

E.O. 11652: GDS

TAGS: EFIN, KU, US

SUBJ: PARSKY VISIT: KUWAIT DIRECTOR OF INVESTMENTS ON GOK
FUND PLACEMENT

1. DURING CALL BY VISITING TREASURY OFFICIAL BRITT SWOFFORD
AND EMBASSY E/C SECTION CHIEF BUCK NOV 20, KUWAIT'S DIRECTOR
OF BANKING AND INVESTMENTS KHALED ABU SAID OUTLINED GOK FUND
PLACEMENT AS FOLLOWS.

2. HALF OF GOK FUNDS, ABU SAUD SAID, PLACED IN ARAB WORLD,
REST IN OECD COUNTRIES, PRIMARILY US, UK, AND OTHER EUROPEAN
COUNTRIES. MUCH OF FUNDS IN ARAB WORLD DISBURSED FOR "POL-
ITICAL" PURPOSES AT VERY LOW INTEREST RATE, SUCH AS DEPOSITIS
WITH CENTRAL BANKS OF VARIOUS COUNTRIES. IF THESE POLITICAL
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INVESTMENTS WERE DISREGARDED, INCOME ON GOK "REAL" (I.E. NON-

POLITICAL) INVESTMENTS WAS ROUGHLY 13-14 PERCENT PER ANNUM. LATTER FIGURE WAS NET, AFTER PROVISION FOR LOSS ON STERLING PLUS GAINS IN OTHER FOREIGN CURRENCIES (AND WE ASSUME, REALIZED CAPITAL GAIN).

3. STERLING: GOK HOLDINGS OF STERLING PURELY RESULT OF FACT THAT IN PAST KUWAITI FINANCE MINISTRY RECEIVED 90 PERCENT OF OIL REVENUES IN STERLING, 10 PERCENT IN DOLLARS. SINCE CHANGE TO PAYMENT ONLY IN DOLLARS, GOK HAS NOT INCREASED STERLING HOLDING. GOK MOVING INTO OTHER EUROPEAN CURRENCIES (HE IMPLIED GERMAN MARKS), BUT NOT DOING SO FOR SPECULATIVE REASONS. SIXTY PERCENT OF STERLING INVESTMENTS ARE IN TANGIBLE ASSETS, ABU SAUD SAID. MOST OF KUWAIT'S STERLING HAD BEEN OBTAINED WHEN EXCHANGE RATE WAS BETTER THAN DOLLARS TWO TO THE POUND, SO KUWAIT HAD TAKEN ROUGHLY 25 PERCENT LOSS ON STERLING HOLDINGS. ALTHOUGH THIS WOULD BE REALIZED ONLY IF HOLDINGS WERE LIQUIDIZED. MOVE FROM RECEIVING OIL REVENUES IN TWO CURRENCIES TO ONE (I.E. DOLLARS) POSED PROBLEMS, ABU SAID SAID. GOK WISHED TO MOVE INTO OTHER RESERVE CURRENCIES, BUT PROBLEM WAS THAT THERE WAS REALLY NO ALTERNATIVE TO THE DOLLAR, SINCE MARKETS IN MANY CURRENCIES, SUCH AS FRENCH FRANC, BELGIUM FRANC, AND DUTCH GUILDER, WERE VERY NARROW. KUWAITI HOLDINGS IF GERMAN MARKS WERE MUCH LARGER THAN THAT OF FRENCH FRANCS.

4. PLACEMENT: ABU SAID NOTED THAT EURODOLLAR MARKET OFFERED SHORT TERM RATES 60 BASIS POINTS BETTER THAN US DOLLAR MARKET. HOWEVER, EURODOLLAR MARKET SUPPLY COULD NOT TAKE THE AMOUNT OF FUNDS US MARKET COULD, SO THERE HAD TO BE TRADE OFF IN PLACEMENT BETWEEN TWO MARKETS. OF GOK INVESTMENT OUTSIDE OF ARAB WORLD, HALF WAS IN US, AND OF US INVESTMENT, 40 PERCENT WAS IN SHORT TERM PLACEMENTS. OVERALL, 40 PERCENT OF KUWAIT FOREIGN INVESTMENTS WERE OF LONG TERM VARIETY, WITH SOME BONDS RUNNING UP TO 15 YEARS. REITERATING POINT MADE BY FINANCE MINISTER ATEEQI, ABU SAID SAID GOK HAD NO INTEREST IN SPECULATION, AND DID NOT INVEST IN GOLD, EXCEPT FOR SOME CENTRAL BANK RESERVES, MUCH OF WHICH ARE IN THE NEW BANK BUILDING'S VAULTS IN KUWAIT.

5. CREDIT TERMS FOR OIL: IN 1975 THE FORMER MINISTRY OF
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FINANCE AND OIL WAS SPLIT UP INTO TWO MINISTRIES. NEW OIL MINISTRY ABU SAUD SAID, CAN GIVE UP TO 45 DAYS CREDIT ON OIL PURCHASES AT ITS DISCRETION. HOWEVER, CREDIT BEYOND 45 DAYS FOR OIL SALES MUST BE APPROVED BY FINANCE MINISTRY, WHICH USUALLY CHARGES ABOVE MARKET INTEREST IN SUCH SALES.

6. WHO RECEIVES THE OIL MONEY? IN CONTRAST TO SOME GULF STATES, WHERE OIL COMPANIES MAKE OUT THEIR CHECKS TO THE

RULER, ABU SUAD SAID IN KUWAIT ALL PAYMENTS FOR OIL GO DIRECTLY
TO THE MINISTRY OF FINANCE.
MAESTRONE

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